

State of Montana

STATE DOCUMENTS COLLECTION

Office of the Legislative Auditor

MAR 26 1990

MONTANA STATE LIBRARY
1515 E. 6th AVE.
HELENA, MONTANA 59620

REPORT TO THE LEGISLATURE

OFFICE OF THE SECRETARY OF STATE

Financial-Compliance Audit for the
Two Fiscal Years Ended June 30, 1986

This report contains three recommendations.

Issues addressed in the report include:

- Expenditure Accruals.
- Timeliness of Deposits.
- Security Filings.



Direct comments/inquiries to:

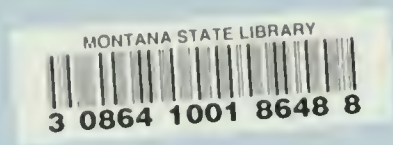
Office of the Legislative Auditor

Room 135, State Capitol

Helena, Montana 59620

86-33

PLEASE RETURN



FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office.

Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

MEMBERS OF THE LEGISLATIVE AUDIT COMMITTEE

Senator Judy Jacobson, Chairman	Representative John Cobb,
Senator Delwyn Gage	Vice Chairman
Senator Tom Keating	Representative Dorothy Bradley
Senator Ted Neuman	Representative Harry Fritz
	Representative Bruce Simon

Office of the Legislative Auditor

OFFICE OF THE SECRETARY OF STATE

Financial-Compliance Audit for the
Two Fiscal Years Ended June 30, 1986

Members of the audit staff involved in this audit were: Wayne Kedish, Gerard Poore, Diane Madden, Don Davies, Bill Hangan, and Janet Tursich.

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122



SCOTT A. SEACAT
LEGISLATIVE AUDITOR

May 1987

DEPUTY LEGISLATIVE AUDITORS:

JAMES GILLET
FINANCIAL COMPLIANCE AUDITS

JIM PELLEGRINI
PERFORMANCE AUDITS

LEGAL COUNSEL:

JOHN W. NORTHEY

To the Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Office of the Secretary of State for the two fiscal years ended June 30, 1986. Included in this report are recommendations concerning expenditure accruals, timeliness of deposits, and security filings.

We thank the Secretary of State and his staff for their assistance and cooperation.

Respectfully submitted,

A handwritten signature in cursive script, reading "Scott A. Seacat".

Scott A. Seacat
Legislative Auditor

TABLE OF CONTENTS

	<u>Page</u>
Elected and Administrative Officials	ii
Summary of Recommendations	iii
Introduction	1
Background	1
Expenditure Recognition	2
Cash Deposits	3
Security Filing	3
Telephone Use	4
Prior Audit Recommendations	5
Auditor's Opinion Letter and Agency Financial Schedules	
Summary of Audit Opinion	
Auditor's Opinion Letter	6
Schedule of Changes in Fund Balances for the Two Fiscal Years Ended June 30, 1986	8
Schedule of Budgeted Revenue & Transfers In - Estimated & Actual for the Two Fiscal Years Ended June 30, 1986	9
Schedule of Budgeted Program Expenditures and Transfers Out by Object and Fund for the Fiscal Year Ended June 30, 1986	10
Schedule of Budgeted Program Expenditures and Transfers Out by Object and Fund for the Fiscal Year Ended June 30, 1985	11
Notes to the Financial Schedules	12
Agency Response	14

OFFICE OF THE SECRETARY OF STATE
ELECTED AND ADMINISTRATIVE OFFICIALS

Jim Waltermire	Secretary of State
Larry Akey	Chief Deputy
Chuck Brooke	Executive Assistant
Elwood English	Chief Counsel
Peggy Trenk	Administrative Officer

SUMMARY OF RECOMMENDATIONS

Page

Recommendation #1

The office comply with state policy regarding expenditure recognition and accrue based on valid obligations.

3

Agency Response: Concur. See page 15.

Recommendation #2

The office deposit cash receipts in the state treasury on a timely basis in accordance with state law.

3

Agency Response: Partially concur. See page 15.

Recommendation #3

The office establish procedures to ensure all security filings are properly coded as agricultural or commercial.

4

Agency Response: Concur. See page 15.

INTRODUCTION

We performed a financial-compliance audit of the Office of the Secretary of State for the two fiscal years ended June 30, 1986. The audit objectives were to:

- 1) determine if the financial schedules present fairly the results of operations of the office for the two fiscal years ended June 30, 1986;
- 2) determine office compliance with applicable laws and regulations;
- 3) make recommendations for improvements in the management and internal controls of the office; and
- 4) determine the implementation status of prior audit recommendations.

The report contains three recommendations to the office. These recommendations address areas in which management, financial record keeping, and compliance with laws and regulations can be improved. Other areas of concern deemed not to have a significant effect on the successful operations of the office programs are not specifically included in the report, but have been discussed with management.

In accordance with section 5-13-307, MCA, we analyzed and disclosed the costs, if significant, of implementing the recommendations made in this report.

BACKGROUND

The Office of the Secretary of State was established by Article VI, Section 1, of the Montana Constitution and its duties are set forth in Title 2, chapter 15, part 4, of the Montana Code Annotated (MCA). It is primarily a record keeping office which files, maintains, and preserves the permanent records of the state and certain public interest records of private citizens. The office also publishes the Montana Administrative Register (MAR) and the Administrative Rules of Montana (ARM). The Secretary of State was authorized 35 full-time equivalent employees during fiscal year 1985-86. Fourteen of

these employees are exempt from the provisions of the statewide classification plan.

The 49th Legislature created the Agricultural Lien (Ag Lien) program to be administered by the Secretary of State. This program has centralized state filing of agricultural liens and provides direct access for subscribers who have a regular need for secured transaction filing information. In December 1985, the United States Congress passed the Food Security Act of 1985 which required states to establish a centralized program or give actual notice to every possible buyer of a secured crop. The Montana Ag Lien system has been certified by the United States Department of Agriculture as being in compliance with the Food Security Act of 1985.

EXPENDITURE RECOGNITION

State policy requires agencies to accrue any valid obligation not paid within the fiscal year. An example of a valid obligation is equipment ordered and received but not paid for as of fiscal year-end. In order to properly reflect the agency's expenditure activity, expenditures should be recorded in the year incurred.

Agency personnel did not follow the fiscal year-end closing procedures of the Statewide Budgeting and Accounting System. As a result, expenditures of \$28,855 incurred at the end of fiscal year 1985-86 were recorded as prior year expenditures in fiscal year 1986-87. This resulted in understatements of current year expenditures of \$12,630 in the General Fund and \$16,225 in the Special Revenue Fund in fiscal year 1985-86.

In fiscal year 1984-85, \$41,500 from the next year's contract for publishing of the Administrative Rules of Montana and Montana Administrative Register was mistakenly accrued. The office should have accrued \$3,619, which represented charges for the publishing services received but not paid for at fiscal year-end 1984-85. This error was not detected by the office's review of fiscal year-end transactions. This resulted in a \$37,881 overstatement of expenditures in fiscal year 1984-85 and \$37,881 understatement of fund balance at June 30, 1985, in the Special Revenue Fund.

RECOMMENDATION #1

WE RECOMMEND THE OFFICE COMPLY WITH STATE POLICY REGARDING EXPENDITURE RECOGNITION AND ACCRUE BASED ON VALID OBLIGATIONS.

CASH DEPOSITS

In the previous three audit reports, we recommended the office deposit its corporate filing receipts in a timely manner. This problem has been corrected. However, during our audit we noted that the Uniform Commercial Code (UCC) and Ag Lien filing deposits are now untimely. Some UCC and Ag Lien filing fee receipts were not deposited for up to two weeks. The amount of the cumulative deposits ranged from \$1,000 to \$7,500.

State law requires all moneys be deposited with the State Treasurer whenever the accumulated amount of coin and currency exceeds \$100 or total collections exceed \$500. All moneys collected must be deposited at least weekly. Due to the untimeliness of deposits, interest income was lost. When deposits are made, the funds are invested by the state Board of Investments to earn interest income for the state's General Fund until they are needed for expenditures. Untimely deposits also increase the risk of loss or misuse of funds.

RECOMMENDATION #2

WE RECOMMEND THE OFFICE DEPOSIT CASH RECEIPTS IN THE STATE TREASURY ON A TIMELY BASIS IN ACCORDANCE WITH STATE LAW.

SECURITY FILING

The Secretary of State's Office collects two types of security filing fees: commercial and agricultural. A security filing is made to perfect a security interest in the collateral the debtor offers in order to receive the loan. Three of forty security filings that we tested

were incorrectly coded. One commercial filing was recorded as an agricultural filing and two agricultural filings were coded as commercial filings. The distinction between the two types of filings is important since commercial filings are accounted for in the General Fund and agricultural filings are accounted for in the Special Revenue Fund.

Sometimes an individual submits a document without explanation of the type of filing. Secretary of State personnel determine whether the filing is commercial or agricultural in these cases. An agency official stated that it is not cost effective to contact the secured party and verify the classification in these instances. The Secretary of State's office supplies different forms for the two types of filings. According to the agency, filers use only one type of form. The agency should consider supplying only one type of form with a check off box for the filer to identify whether the filing is commercial or agricultural.

RECOMMENDATION #3

WE RECOMMEND THE OFFICE ESTABLISH PROCEDURES TO ENSURE ALL SECURITY FILINGS ARE PROPERLY CODED AS AGRICULTURAL OR COMMERCIAL.

TELEPHONE USE

Employees reimburse the office for personal long distance calls made on state telephones. Although it is not part of a formal policy, the office uses a self-regulating repayment procedure. Each employee receives a report of long distance calls from his/her phone for the month. The employees mark those calls which are personal rather than business related and remit payment to office accounting personnel.

In our limited scope performance audit of state telephone use, we determined that state laws and regulations concerning personal use of state telephones are not specific. We also determined that policies regarding personal use of state telephones varied widely among state

agencies. As a result, the Legislative Audit Committee sponsored legislation, now enacted as Chapter 42, Laws of 1987, which requires the Department of Administration to establish and clarify policies and procedures applicable to all state agencies that will address the use of the state telephone system for personal calls. As new rules regarding the personal use of the state telephone system will soon be adopted, we make no further recommendations to the office in this report.

PRIOR AUDIT RECOMMENDATIONS

Our office performed the Office of the Secretary of State audit for the two fiscal years ended June 30, 1984. The report contained five individual recommendations still applicable and directed to the office. The office implemented four and partially implemented one.

The recommendation that was partially implemented concerned the timeliness of deposits as discussed on page 3.

AUDITOR'S OPINION LETTER
AND AGENCY FINANCIAL SCHEDULES

SUMMARY OF AUDIT OPINION

The auditor's opinion issued in this report is intended to convey to the reader of the financial schedules the degree of reliance which can be placed on the amounts presented. The financial schedules are prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustments. This is done to convey the degree of reliance users may place on SBAS information.

We issued a qualified opinion on the Schedule of Changes in Fund Balances for the two fiscal years ended June 30, 1986, and the Schedule of Budgeted Program Expenditures and Transfers Out by Object and Fund for fiscal year 1984-85. Except for the effect of not properly accruing expenditures in the Special Revenue Fund, the schedules are fairly stated and the user may rely on the SBAS information as presented.

We issued an unqualified opinion on the Schedule of Budgeted Revenue and Transfers In - Estimated and Actual for the two fiscal years ended June 30, 1986, and the Schedule of Budgeted Program Expenditures and Transfers Out by Object and Fund for fiscal year 1985-86. This means the schedules are fairly stated and the user of this SBAS information may rely on it as presented.

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122



SCOTT A. SEACAT
LEGISLATIVE AUDITOR

DEPUTY LEGISLATIVE AUDITORS:

JAMES GILLET
FINANCIAL COMPLIANCE AUDITS

JIM PELLEGRINI
PERFORMANCE AUDITS

LEGAL COUNSEL:

JOHN W. NORTHEY

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the financial schedules of the various funds of the Office of the Secretary of State for each of the two fiscal years ended June 30, 1985 and 1986 as shown on pages 8 through 13. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Note 1 to the financial schedules, the office's financial schedules are prepared in accordance with state accounting policy. Accordingly, the accompanying financial schedules are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

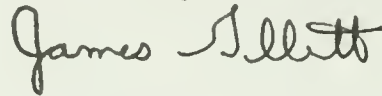
The Office of the Secretary of State did not properly accrue expenditures. As a result, Special Revenue Fund expenditures are overstated by \$37,881 in fiscal year 1984-85 and understated by \$16,225 in fiscal year 1985-86. These errors resulted in the Special Revenue Fund Balance at June 30, 1986, to be overstated by \$16,225.

In our opinion, except for the matter discussed in paragraph three, the Schedule of Changes in Fund Balances for the two fiscal years ended June 30, 1986, and the Schedule of Budgeted Program Expenditures and Transfers Out by Object and Fund for fiscal year

1984-85 present fairly the results of operations and changes in fund balance of such funds of the Office of the Secretary of State, in conformity with the basis of accounting described in Note 1 applied on a consistent basis.

In our opinion, the Schedule of Budgeted Revenue and Transfers In - Estimated and Actual for the two fiscal years ended June 30, 1986, and the Schedule of Budgeted Program Expenditures and Transfers Out by Object and Fund for fiscal year 1985-86 present fairly the results of operations of such funds of the Office of the Secretary of State, in conformity with the basis of accounting described in Note 1 applied on a consistent basis.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "James Gillett". The signature is fluid and cursive, with the first name "James" written in a larger, more prominent script than the last name "Gillett".

James Gillett, CPA
Deputy Legislative Auditor

February 20, 1987

OFFICE OF THE SECRETARY OF STATE
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1986

	<u>General Fund</u>	<u>Special Revenue Fund</u>
FUND BALANCE: July 1, 1984	\$ <u>-0-</u>	\$ <u>43,497</u>
ADDITIONS:		
<u>Fiscal Year 1984-85</u>		
Budgeted Revenue & Transfers In	1,006,425	142,807
Prior Year Revenue Adjustments	15	
Support from State of Montana	(87,167)	
<u>Fiscal Year 1985-86</u>		
Budgeted Revenue & Transfers In	935,045	374,716
Prior Year Revenue Adjustments	(70)	
Support from State of Montana	(73,417)	
Total Additions	<u>1,780,831</u>	<u>517,523</u>
REDUCTIONS:		
<u>Fiscal Year 1984-85</u>		
Budgeted Expenditures & Transfers Out	919,339	189,059
Prior Year Expenditure Adjustments	(66)	(366)
<u>Fiscal Year 1985-86</u>		
Budgeted Expenditures & Transfers Out	861,920	322,856
Prior Year Expenditure Adjustments	(362)	(38,002)
Total Reductions	<u>1,780,831</u>	<u>473,547</u>
FUND BALANCE: June 30, 1986	\$ <u><u>-0-</u></u>	\$ <u><u>87,473</u></u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 12 and 13.

Fiscal Year

GENERAL FUN

Estimated

Actual Rev

Collection

(Under)

SPECIAL REV.

Estimated

Actual Rev

Collections

(Under)

Fiscal Year

GENERAL FUNI

Estimated I

Actual Reve

Collections

(Under) I

SPECIAL REVE

Estimated F

Actual Reve

Collections

(Under) E

This schedule
is provided :

OFFICE OF THE SECRETARY OF STATE
SCHEDULE OF BUDGETED REVENUE & TRANSFERS IN - ESTIMATED & ACTUAL
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1986

	<u>Licenses and Permits</u>	<u>Service Fees</u>	<u>Miscellaneous</u>	<u>Sale of Documents & Merchandise</u>	<u>Other Financing Sources</u>	<u>Total</u>
<u>Fiscal Year 1985-86</u>						
GENERAL FUND						
Estimated Revenue	\$462,000	\$104,520	\$1,000			\$ 567,520
Actual Revenue	<u>766,938</u>	<u>167,171</u>	<u>936</u>			<u>935,045</u>
Collections Over (Under) Estimate	<u>\$304,938</u>	<u>\$ 62,651</u>	<u>\$ (64)</u>			<u>\$ 367,525</u>
SPECIAL REVENUE FUND						
Estimated Revenue		\$263,600		\$119,000	\$ 36,600	\$ 419,200
Actual Revenue		<u>208,915</u>		<u>135,201</u>	<u>30,600</u>	<u>374,716</u>
Collections Over (Under) Estimate		<u>\$(54,685)</u>		<u>\$ 16,201</u>	<u>\$ (6,000)</u>	<u>\$ (44,484)</u>
<u>Fiscal Year 1984-85</u>						
GENERAL FUND						
Estimated Revenue	\$508,200	\$137,600	\$1,000			\$ 646,800
Actual Revenue	<u>831,274</u>	<u>173,541</u>	<u>1,610</u>			<u>1,006,425</u>
Collections Over (Under) Estimate	<u>\$323,074</u>	<u>\$ 35,941</u>	<u>\$ 610</u>			<u>\$ 359,625</u>
SPECIAL REVENUE FUND						
Estimated Revenue				\$140,500	\$ 70,950	\$ 211,450
Actual Revenue				<u>91,207</u>	<u>51,600</u>	<u>142,807</u>
Collections Over (Under) Estimate				<u>\$(49,293)</u>	<u>\$(19,350)</u>	<u>\$ (68,643)</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 12 and 13.

OFFICE OF THE SECRETARY OF STATE
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES AND TRANSFERS OUT
BY OBJECT AND FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1986

	Records Management	Administrative Code	Total
PERSONAL SERVICES			
Salaries	\$484,578	\$ 72,558	\$ 557,136
Employee Benefits	<u>105,618</u>	<u>14,967</u>	<u>120,585</u>
Total	<u>590,196</u>	<u>87,525</u>	<u>677,721</u>
OPERATING EXPENSES			
Contracted Services	251,619	40,659	292,278
Supplies & Materials	36,246	5,540	41,786
Communications	53,040	12,727	65,767
Travel	13,999	1,534	15,533
Rent	24,899	6,341	31,240
Repair & Maintenance	6,234	2,392	8,626
Other Expenses	<u>3,813</u>	<u>977</u>	<u>4,790</u>
Total	<u>389,850</u>	<u>70,170</u>	<u>460,020</u>
EQUIPMENT AND INTANGIBLE ASSETS			
Equipment	<u>15,261</u>	<u>1,174</u>	<u>16,435</u>
Total	<u>15,261</u>	<u>1,174</u>	<u>16,435</u>
TRANSFERS			
Accounting Entity Transfers		<u>30,600</u>	<u>30,600</u>
Total		<u>30,600</u>	<u>30,600</u>
TOTAL PROGRAM EXPENDITURES	<u>\$995,307</u>	<u>\$189,469</u>	<u>\$1,184,776</u>
GENERAL FUND			
Budgeted	\$895,237	\$ 31,110	\$ 926,347
Actual	<u>831,320</u>	<u>30,600</u>	<u>861,920</u>
Unspent Budget Authority	<u>\$ 63,917</u>	<u>\$ 510</u>	<u>\$ 64,427</u>
SPECIAL REVENUE FUND			
Budgeted	\$265,544	\$163,507	\$ 429,051
Actual	<u>163,987</u>	<u>158,869</u>	<u>322,856</u>
Unspent Budget Authority	<u>\$101,557</u>	<u>\$ 4,638</u>	<u>\$ 106,195</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 12 and 13.

OFFICE OF THE SECRETARY OF STATE
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES AND TRANSFERS OUT
BY OBJECT AND FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1985

	Records Management	Administrative Code	Total
PERSONAL SERVICES			
Salaries	\$425,700	\$ 67,314	\$ 493,014
Employee Benefits	87,240	13,674	100,914
Total	<u>512,940</u>	<u>80,988</u>	<u>593,928</u>
OPERATING EXPENSES			
Contracted Services	229,014	82,922	311,936
Supplies & Materials	30,272	3,778	34,050
Communications	52,793	8,759	61,552
Travel	9,828	1,581	11,409
Rent	20,531	6,639	27,170
Repair & Maintenance	4,617	1,370	5,987
Other Expenses	3,378	739	4,117
Total	<u>350,433</u>	<u>105,788</u>	<u>456,221</u>
EQUIPMENT AND INTANGIBLE ASSETS			
Equipment	4,366	2,283	6,649
Total	<u>4,366</u>	<u>2,283</u>	<u>6,649</u>
TRANSFERS			
Accounting Entity Transfers		51,600	51,600
Total		<u>51,600</u>	<u>51,600</u>
TOTAL PROGRAM EXPENDITURES	<u>\$867,739</u>	<u>\$240,659</u>	<u>\$1,108,398</u>
GENERAL FUND			
Budgeted	\$868,091	\$ 70,950	\$ 939,041
Actual	867,739	51,600	919,339
Unspent Budget Authority	<u>\$ 352</u>	<u>\$ 19,350</u>	<u>\$ 19,702</u>
SPECIAL REVENUE FUND			
Budgeted	\$ 11,000	\$203,373	\$ 214,373
Actual	-0-	189,059	189,059
Unspent Budget Authority	<u>\$ 11,000</u>	<u>\$ 14,314</u>	<u>\$ 25,314</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 12 and 13.

OFFICE OF THE SECRETARY OF STATE
NOTES TO THE FINANCIAL SCHEDULES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1986

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Office of the Secretary of State uses the modified accrual basis of accounting, described in the Montana Operations Manual, for the General and Special Revenue Funds.

Under the modified accrual basis of accounting, a valid obligation exists when the related liability is incurred except for the following items which are also considered valid obligations under state accounting policy.

- If the appropriation provided funds to complete a given project, the entire amount of a service contract may be accrued even though the services are rendered in fiscal years subsequent to the fiscal year in which the expenditure is accrued.
- Equipment expenditures may be charged against the fiscal year in which budgeted.
- Goods ordered, but not received as of the fiscal year-end, may be accrued if the purchase order was issued prior to fiscal year-end.
- Obligations for employees' vested annual leave and sick leave are recorded as expenditures when paid.

Revenues under the modified accrual basis of accounting are recognized when measurable and available. "Available" means the revenue will be received soon enough to pay liabilities of the current period.

Basis of Presentation

The financial schedules were prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustments.

Accounts are organized on the basis of funds according to state law. The following fund types are used by the office:

General - accounts for all financial resources except those required to be accounted for in another fund. The major activities accounted for in the General Fund by the Office of the Secretary of State are the corporation and Uniform Commercial Code filings.

Special Revenue - accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. Legislative appropriations are required to spend from this fund type. The Special Revenue Fund of the Office of the Secretary of State accounts for the Agricultural lien activity and also the sales of the Administrative Rules of Montana and Montana Administrative Register.

2. VACATION AND SICK LEAVE

Employees are paid for 100 percent of unused vacation and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for vacation and sick leave are not reflected in the financial schedules of the Office of the Secretary of State. Expenditures for termination pay currently are absorbed in the annual operational costs of the office. At June 30, 1986, the office had a liability of \$37,510 for vacation and \$15,558 for sick leave.

3. PENSION PLAN

Employees are covered by the Montana Public Employees' Retirement System (PERS). The office's contribution to the plan was \$28,441 in fiscal year 1984-85 and \$33,028 in fiscal year 1985-86.

4. GENERAL FUND BALANCE

The General Fund is a Statewide Fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the Statewide General Fund as long as they stay within their appropriation limits. Thus, on an agency schedule, the fund balance will always be zero for the General Fund.

AGENCY RESPONSE

SECRETARY OF STATE
STATE OF MONTANA

Jim Waltermire
Secretary of State

Montana State Capitol
Helena, Montana 59620
May 8, 1987


Mr. Scott Seacat
Legislative Auditor
Room 135, State Capitol
Helena, MT 59620

Dear Mr. Seacat:

Enclosed you will find the response of the Secretary of State to recommendations contained in the financial-compliance audit recently completed by your staff. We appreciate this opportunity for written response. We also appreciate the courteous, professional conduct of your audit staff.

If you need further information, please contact me.

Sincerely,


Larry Key
Chief Deputy

SECRETARY OF STATE'S RESPONSE
Financial-Compliance Audit
for the Two Fiscal Years Ended June 30, 1986

1. WE RECOMMEND THE OFFICE COMPLY WITH STATE POLICY REGARDING EXPENDITURE RECOGNITION AND ACCRUE BASED ON VALID OBLIGATIONS.

RESPONSE: Concur. Internal procedures have been modified to ensure future compliance.

2. WE RECOMMEND THE OFFICE DEPOSIT CASH RECEIPTS IN THE STATE TREASURY ON A TIMELY BASIS IN ACCORDANCE WITH STATE LAW.

RESPONSE: Partially Concur. The problem with untimely deposits of receipts in the Uniform Commercial Code occurred as a result of document volumes exceeding expectations during the transition to centralized agricultural lien filings. This one-time situation no longer exists. However, as indicated in the agency's response to a similar recommendation in previous audit reports, practical considerations may preclude strict adherence to this recommendation.

The agency collects a large number of small dollar receipts. These collections are deposited with the State Treasurer on a daily basis, but only after the staff examines and files the documents. During periods of high workload, cumulative undeposited receipts will usually exceed \$500. However, we believe full implementation of this recommendation would result in a substantially higher rate of refunds and would require additional personnel. The additional costs associated with fully implementing this recommendation would more than offset any marginal interest income revenue that might accrue.

3. WE RECOMMEND THE OFFICE ESTABLISH PROCEDURES TO ENSURE ALL SECURITY FILINGS ARE PROPERLY CODED AS AGRICULTURAL OR COMMERCIAL.

RESPONSE: Concur. Passage of HB837, Chapter 619 Session Laws 1987, eliminates the need for distinguishing between commercial and agricultural filings.

